



STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF FINANCIAL EXAMINATION

of

ALPHA DENTAL OF UTAH, INC.

of

Salt Lake City, Utah

as of

December 31, 2012



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May 30, 2014

Honorable Todd E. Kiser, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Pursuant to your instructions and in compliance with statutory requirements, a Utah-only examination, as of December 31, 2012, has been made of the financial condition and business affairs of:

ALPHA DENTAL OF UTAH, INC.
Salt Lake City, Utah

hereinafter referred to in this report as ADUI or the Company, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The last examination was conducted as of December 31, 2008. This examination covers the period of January 1, 2009 through December 31, 2012, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

Examination Procedure Employed

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company including corporate governance, identifying and assessing inherent risks within the company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the company were considered in accordance with the risk-focused examination process.

Status of Prior Examination Findings

The previous examination report as of December 31, 2008, dated January 12, 2010, was distributed to the board of directors on February 23, 2010.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

Issues discovered during the course of this examination that are not considered to be material weaknesses were presented to management, in a Management Letter, for their consideration.

Items of significance commented on in this report are summarized below:

The Company's custodial agreements with Wells Fargo, were not in compliance with Utah Administrative Code (U.A.C.) R590-178 (ACCOUNTS AND RECORDS).

Recommendation: Custodial agreement is brought into compliance with U.A.C. R590-178.

Company Response: The custodial agreement was brought into compliance with U.A.C. R590-178 during the time frame of the examination period. No further action is needed.

SUBSEQUENT EVENTS

Entrance into the Health Exchange

The Company made the decision to participate in the Health Exchange in Utah in both the small group and individual markets. The application process took place in 2013 with those policies available to purchase on January 1, 2014.

COMPANY HISTORY

General

Alpha Dental is a wholly-owned subsidiary of DDC Insurance Holdings, Inc., a Delaware holding company, that is 100% owned and controlled by Delta Dental of California (DDC), a California non-profit corporation. Alpha Dental has the benefit of DDC's financial resources. DDC's general reserves at 12/31/2012 were approximately \$557 million. DDC and its affiliate Delta Dental Insurance Company provide a full suite of management, administrative and technology services and resources to administer the Alpha Dental business. The DDC is under the umbrella of Dentegra, which is the ultimate holding company.

Alpha Dental has essentially one product, a prepaid dental program known as DeltaCare USA. The advantage of this focus is the ability to excel in the one area, to lead the market in managed care dental services. The 2011 Group Dental Insurance Market Overview issued by IBIS Associated in December 2012 once again reported Delta Dental and its products as the market share leader. The Company has a strong name recognition, solid relationships with the broker and consultant community and high levels of customer satisfaction and retention.

The Company is included in a consolidated federal income tax return with its parent company, DDCIH, and the other subsidiaries of DDCIH. The Company has a written agreement which sets forth the manner in which the total combined federal income tax is allocated to each entity which is a party to the consolidation. Pursuant to

this agreement, the Company has the enforceable right to recoup federal income taxes paid in prior years in the event of future net losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes. In accordance with accounting principles guidance, current and deferred taxes are allocated to members of the consolidated group using the separate return allocation method.

As a result of inclusion in a consolidated federal income tax return for the year ended December 31, 2012, the Company realized a one-time benefit of \$196,913 from the release of the valuation allowance based on its ability to use the federal net operating losses in a consolidated return.

Dividends and Capital Contributions

There were no dividends declared or paid to shareholders during the examination period. There was a capital contribution to the Company during the examination period of \$1,000,000 by DDC.

Mergers and Acquisitions

There were no mergers or acquisitions during the period of this examination.

CORPORATE RECORDS

The previous examination report as of December 31, 2008, dated January 12, 2010, was distributed to the board of directors on February 23, 2010. The minutes of meetings of stockholders, directors, and board committees were reviewed for compliance and adequately approve and support the Company's transactions and events.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The bylaws of the Company indicate the number of directors shall be not less than three (3) nor more than nine (9). The board of directors as of December 31, 2012 was comprised of three (3) directors.

The following persons served as directors of the Company as of December 31, 2012:

<u>Name and Location</u>	<u>Title and Principal Occupation</u>
Gary Dennis Radine	Director
Michael James Castro	Director and Treasurer
Patrick S Steele	Director

The Company's bylaws provide for officers to consist of President, Secretary, and Treasurer. Other officers can be elected as deemed necessary.

The officers of the Company as of December 31, 2012, were as follows:

<u>Name</u>	<u>Title</u>
Anthony S Barth	President
Melissa K Gee, Esq.	Secretary
Michael J Castro	Treasurer
Belinda Martinez	Vice President

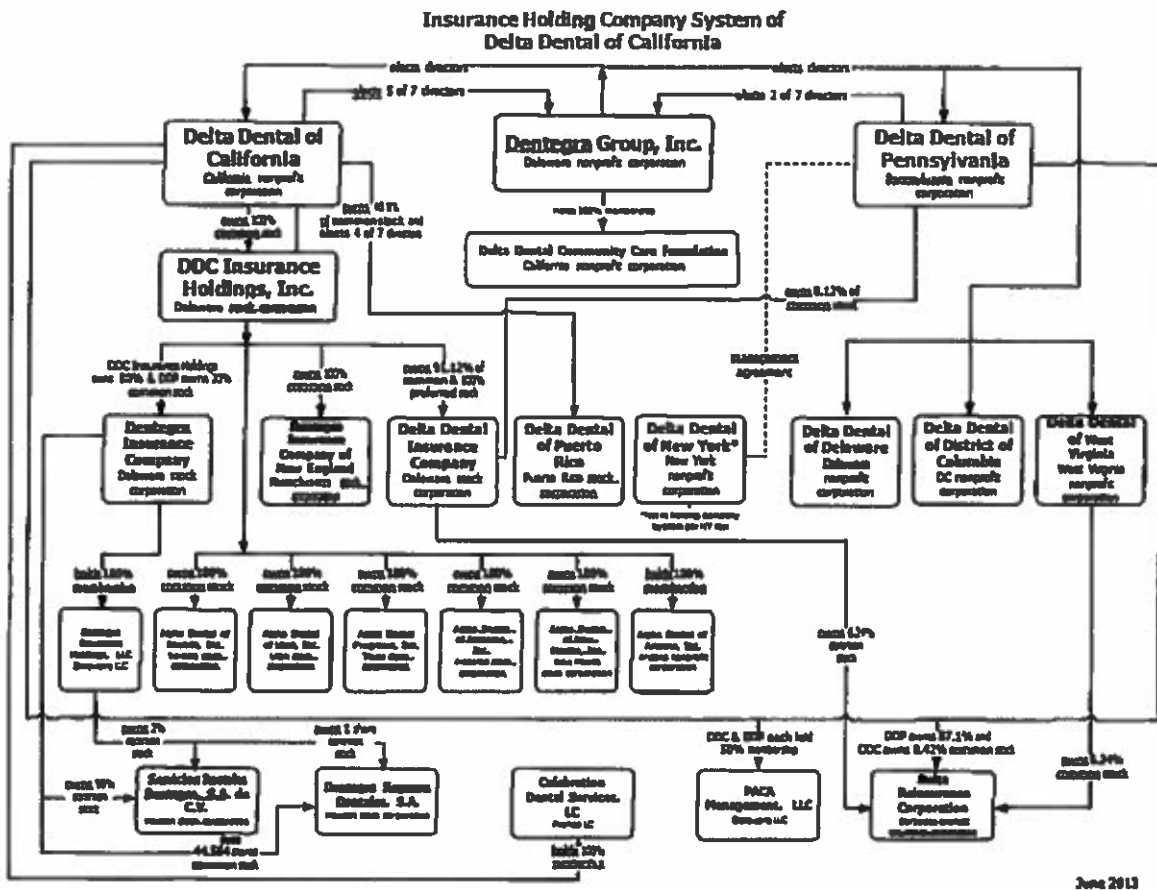
The Company's committees and the respective committee members are made up of senior management available in the whole holding company system. The following are committee members as of December 31, 2012 were as follows:

Audit	Finance	Investment
Glen F Bergert, Chair	Terry A O'Toole, Chair	Michael J Castro, Chair
Steven F McCann	Steven F McCann	Anthony S Barth
Terry A O'Toole	Andrew J Reid	Jeanne M Foster
Andrew J Reid	Steven W Voss	Kevin L Jackson
Steven W Voss	Thomas A Zimmerman	Patrick S Steele
Thomas A Zimmerman		Alicia F Weber

Holding Company

The Company is wholly owned and controlled by Delta Dental of California (DDC). DDC is wholly owned and controlled by Dentegra Group, Inc. An organizational chart illustrating the holding company system is as follows. In looking at the balance sheet for the consolidated filing for the holding company system, the parent's assets, DDC, make up about 92.37% of the total assets for the holding company for year end 2012.

Holding Company Organization



June 2015

FIDELITY BONDS AND OTHER INSURANCE

Based on the amount of business the Company produces, there is a need to have a fidelity bond in place worth between \$25,000 and \$50,000.

The copy of the fidelity bond is through the parent company, Delta Dental of California, Inc, with Federal Insurance Company. The renewal date is August 1st each year. There is a total for a single loss limit of \$15,000,000 and an aggregate loss for the term of the bond of \$30,000,000. The Company also provided the Fidelity bond for the 2013 renewal. No changes have been made.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company does not have any employees. They operate under a management agreement with the parent company. There are no pension plans offered, per the annual statement.

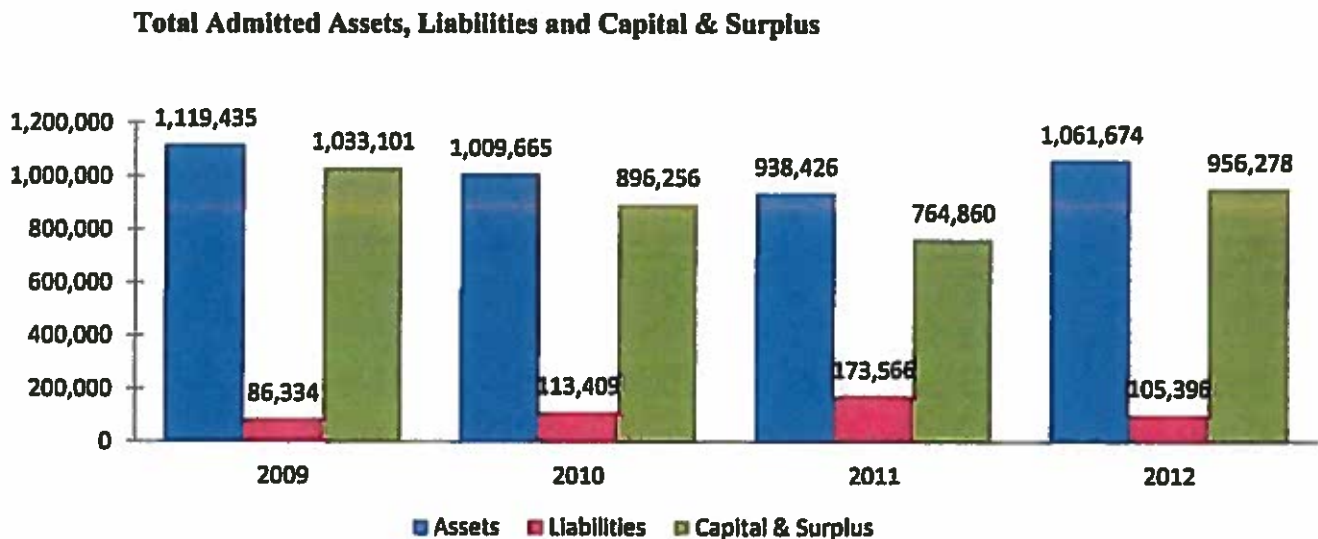
TERRITORY AND PLAN OF OPERATION

The Company was licensed and authorized to transact dental insurance in the State of Utah as of December 31, 2012:

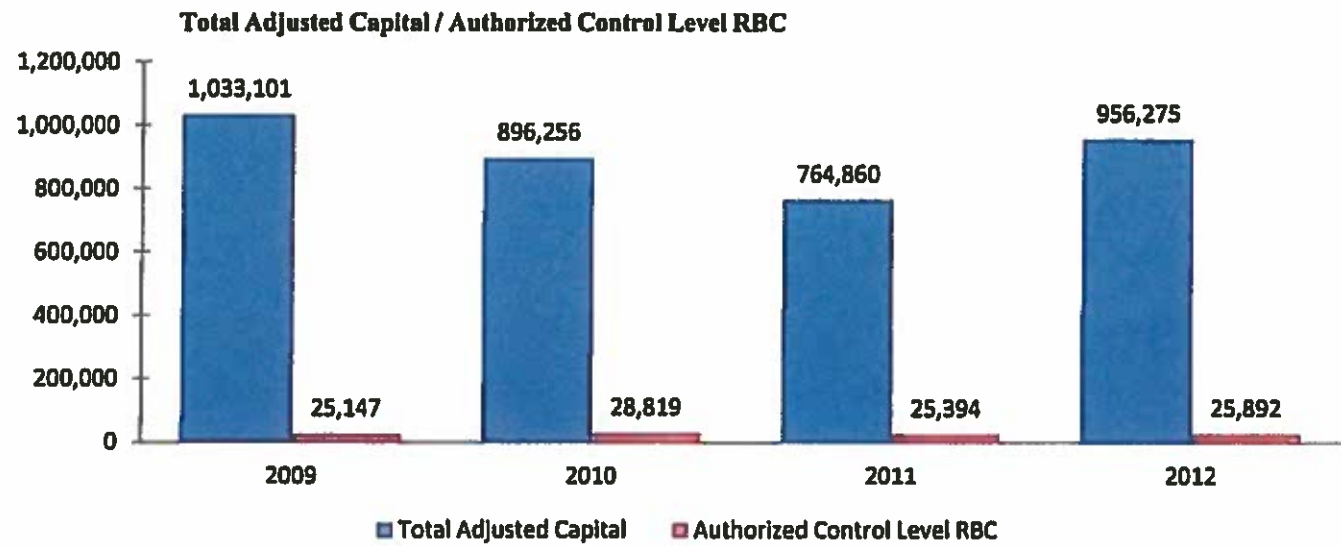
Premiums were written in Utah only and were \$184,195 for 2012.

GROWTH OF COMPANY

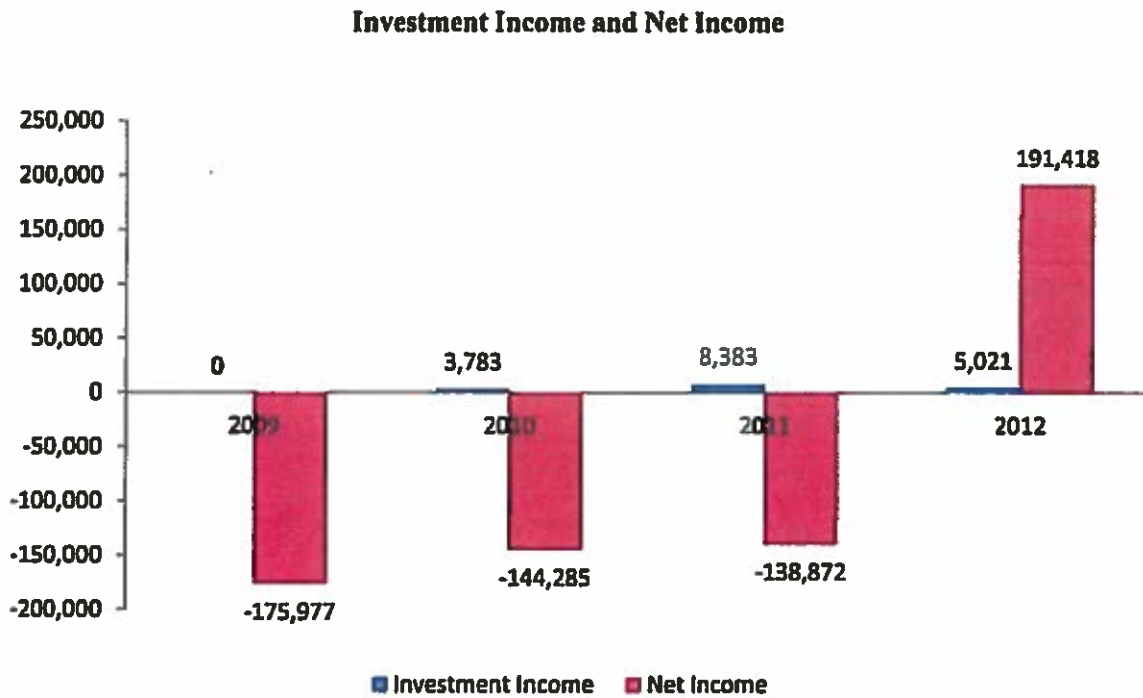
The Company's total admitted assets decreased 5.16% from 2009 to 2012. Capital and surplus decreased 7.44%, with a corresponding increase in liabilities of 22.08%.



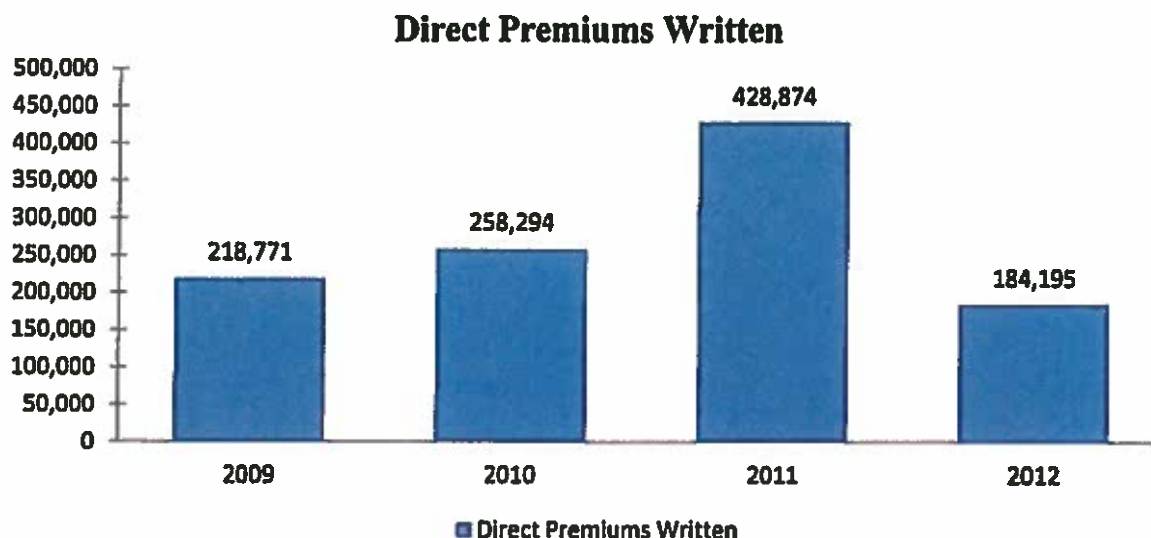
Total adjusted capital decreased 7.44% from 2009 to 2012. This decrease is primarily due to higher claims costs.



Investment income increased 100% from 2009 to 2012. Net income increased 208.77% from 2009 to 2012, The main reason for the increase in 2012 was a one-time tax benefit from the new consolidated tax return.



Net premiums income decreased 15.80% from 2009 to 2012, reflecting the capitated dental market.



ACCOUNTS AND RECORDS

DDC, an affiliate, provides all administrative services as may be necessary and appropriate for the business operations of the organization.

An independent certified public accounting firm audited the organization's records during the period covered by this examination. The audit reports and workpapers were made available for the examiner's use.

Board and committee minutes were reviewed for the examination period and appeared in good order.

STATUTORY DEPOSITS

Pursuant to U.C.A. § 31A-4-105, the Company was required to maintain a deposit in the amount equal to its minimum capital requirement. The minimum capital requirement was \$400,000, pursuant to U.C.A. § 31A-5-211(2)(a).

The special deposit, consisting of a U.S. Treasury Note maintained by the domiciliary state for the benefit of all policyholders, as of December 31, 2012, was as follows:

<u>State</u>	<u>Statement Value</u>	<u>Fair Value</u>
Utah	\$513,303	\$504,281

FINANCIAL STATEMENTS

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination. The accompanying COMMENTS ON FINANCIAL STATEMENTS are an integral part of the financial statements.

ALPHA DENTAL OF UTAH, INC. BALANCE SHEET (ASSETS) as of December 31, 2012

	Net Admitted Assets	Comments
Bonds	\$414,144	
Cash and short-term investments	427,727	
Investment income due and accrued	5,021	
Uncollected premiums and agents' balances	473	
Receivables from parent, subsidiaries and affiliates	214,309	
Total Assets	<u>\$1,061,674</u>	

ALPHA DENTAL OF UTAH, INC. BALANCE SHEET (LIABILITIES, SURPLUS AND OTHER FUNDS) as of December 31, 2012

	Current Year	Comments
Claims unpaid	\$30,126	
Unpaid claims adjustment expenses	6,598	
Premium received in advance	15,882	
General expenses due or accrued	41,042	
Amounts due to parent, subsidiaries and affiliates	11,748	
Total Liabilities	<u>105,396</u>	
Common capital stock	10,000	
Gross paid in and contributed surplus	1,119,552	
Unassigned funds (surplus)	(173,274)	
Total capital and surplus	<u>956,278</u>	
Total liabilities, surplus and other funds	<u>\$1,061,674</u>	

ALPHA DENTAL OF UTAH, INC.
SUMMARY OF OPERATIONS
for the Year Ended December 31, 2012

	<u>Current Year</u>
Net premium income	\$184,195
Aggregate write-ins for other health care related revenues	<u>3,281</u>
Total Revenues	187,476
Other professional services	174,974
Outside referrals	<u>8,922</u>
Total Hospital and Medical	183,896
Claims adjustment expenses	(6,341)
General administrative expenses	<u>29,927</u>
Total Underwriting Deductions	207,482
Net Underwriting gain or (loss)	(20,006)
Net investment income earned	14,022
Net realized capital gains (losses) less capital gains tax	<u>489</u>
Net investment gains (losses)	14,511
Net income or (loss) after capital gains tax and before all other federal income taxes	<u>(5,495)</u>
Federal and foreign income taxes incurred	<u>(196,913)</u>
Net Income (loss)	<u>\$191,418</u>

ALPHA DENTAL OF UTAH, INC.
RECONCILIATION OF CAPITAL AND SURPLUS
2009 through 2012

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Capital and surplus, December 31, prior year	\$209,078	\$1,033,101	\$896,256	\$764,860
Net Income/(Loss)	(175,977)	(136,846)	(131,395)	191,418
Surplus Adjustments: Paid In	1,000,000	0	0	0
Aggregate write-ins for gains/losses in surplus	0	1	(1)	0
Net change in capital and surplus for the year	<u>824,023</u>	<u>(136,845)</u>	<u>(131,396)</u>	<u>191,418</u>
Capital and surplus, current year	\$1,033,101	\$896,256	\$764,860	\$956,278

COMMENTS ON FINANCIAL STATEMENTS

As part of the examination, the financial statements were reviewed for the examination period. No unusual or significant issues were found.

Financial statements for the 2013 annual and 2014 1st quarterly were also reviewed and no unusual or significant issues were found.

ACKNOWLEDGEMENT

Aaron Phillips, MBA, CFE, CISA, IT Specialist, performed the information systems review. Aaron Phillips, MBA, CFE, CISA, Audit Manager, supervised the examination. He joins the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "D. Shane Sadler", is written above the printed name.

D. Shane Sadler, MPA, AFE, PIR
Examiner-in-Charge
Utah Insurance Department